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GOVERNMENT OF INDIA.

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SPEECH BY THE HONOURABLE FINANCE MEMBER ON INTRODUCING
THE BUDGET PROPOSALS FOR 1937-38.

**Speech by the Hon'ble Finance Member
on introducing the
Budget Proposals for 1937-38.**

1. In my two previous Budget speeches I have had to tell a story of good fortune, of expectations more than realised, of reductions of taxation and of grants for various kinds of development. Today I have a different kind of story to tell, a story of disappointment, and of unexpected difficulties superimposed upon those which we expected and had braced ourselves to bear. Nevertheless the story will, I hope, show that the difficulties can be surmounted with little hardship or even inconvenience and that being so, the confidence in the future which I have hitherto expressed need only be tempered and certainly not abandoned.

Having thus aroused your curiosity I will proceed at once to the first of my three tasks, *viz.*, that of resurrecting a financial year which has been for a long while dead.

FINANCIAL YEAR 1935-36.

2. When I presented the budget a year ago I anticipated a surplus of Rs. 1,97 lakhs for the year ending the 31st March 1936 and this I asked the House to transfer to a Revenue Reserve Fund to help out the finances of 1937-38, the first year of Provincial Autonomy. This carry-forward has turned out to be Rs. 1,84 lakhs or Rs. 13 lakhs less than we expected. There were improvements of Rs. 27 lakhs under Taxes on Income and there was an increase of Rs. 16 lakhs under interest receipts combined with a saving of Rs. 13 lakhs under interest payments. There were also miscellaneous increases of receipts amounting to Rs. 19 lakhs but all these improvements were more than swallowed up by decreases of Rs. 27 lakhs under Salt and of Rs. 61 lakhs under Customs. The former was due to postponement of clearances at the end of the year. This usually happens when there is an expectation of a reduction in the rate of duty but in this case the expectation was singularly ill-founded for it was based on nothing more than what I may perhaps without undue disrespect call one of the more optimistic votes given by the Party opposite. Of the recession under Customs no less than Rs. 36 lakhs was attributable to the sugar import duty alone and this heavy deterioration represented a complete reversal in the last two or three months of the financial year of the tendencies which had been in vogue in the earlier months. I would remind Hon'ble Members that I drew their attention to it during the debates on the Finance Bill, when I said "We now have 11 months figures to go on and to give only one example, the receipts from the sugar import duty in February were only Rs. 5 lakhs whereas the corresponding figure for the year before was something over Rs. 20 lakhs, I believe, and it is now quite clear that we have overshot the mark in the revised estimates for the yield of sugar import duty."

The striking decline in the volume of sugar imports was accompanied by some diminution in the general import trade, and particularly the trade in the more highly dutiable commodities. The putting into effect of sanctions

against imports from Italy must have contributed something to this unfavourable result. At the same time imports of silver began to show a marked increase, a diversion of India's purchasing power into a channel which, at any rate from the revenue point of view, is comparatively sterile and unprofitable, since the incidence of the duty on these imports is much lower than on imports of merchandise.

FINANCIAL YEAR 1936-37.

3. The tendencies which disclosed themselves in February and March certainly did not disappear with the end of the financial year but were an only too accurate prologue of what was to come in 1936-37. The revised forecast for that year shows, instead of a surplus of Rs. 6 lakhs, a deficit of Rs. 1,97 lakhs. There is an excess of Rs. 25 lakhs in expenditure and a deterioration in revenue of Rs. 1,78 lakhs.

Excluding Railways, the figures are as follows :—

	(Rs. lakhs.)	
	Budget, 1936-37.	Revised, 1936-37.
Revenue	83.14	81.36
Expenditure	83.08	83.33
Surplus	<u>6</u>	<u>Deficit . . 1.97</u>

Hon'ble Members will find the estimates set out in detail in the Financial Secretary's memorandum but I shall naturally be expected to supplement the figures with a few explanations.

Revenue.

4. To turn first to Revenue. The main elements in the total deterioration of Rs. 1,78 lakhs are as follows :—

Deficits of Rs. 2.16 lakhs, Rs. 37 lakhs and Rs. 28 lakhs under Customs, Income Tax and Currency, respectively and Improvements of Rs. 41 lakhs, Rs. 37 lakhs and Rs. 10 lakhs under Central Excises, Miscellaneous and Salt.

5. *Customs.*—As I have just indicated we now expect a shortfall of Rs. 2.16 lakhs. There are two large surpluses, viz., Silver Rs. 1,53 lakhs and Artificial Silk Piecegoods Rs. 55 lakhs but in practically every other commodity there has been a decline. Sugar Rs. 1,45 lakhs, British piecegoods Rs. 75 lakhs, Metals other than iron and steel Rs. 40 lakhs, while the large number of smaller deficits over the remainder of the field add up to nearly Rs. 1 $\frac{3}{4}$ crores.

The extremely heavy fall in the receipts from imported sugar tells its own tale, but I cannot refrain from pointing out the justification which this affords for my refusal in the last two years to commit myself to a programme of remissions of taxation on the strength of the more or less indefinite continuance of this source of revenue. As regards British piecegoods, it is clear that the exaggerated apprehensions that were expressed in certain quarters when the recommendation of the Tariff Board was accepted were unfounded. In spite of the reduction in the duty the U. K. products have not so far succeeded in recapturing any part of the markets which they hold till comparatively recently,

and the prices have remained largely beyond the reach of the Indian purchaser. The decrease in the import of metals reflects the enhanced European demand for rearmament purposes, which, together with the inevitable rise in prices, has restricted delivery of supplies to India. The contraction in other fields of our import trade may also be ascribed in part to the difficulty and uncertainty which attends the fulfilment of orders for manufactured goods from Europe. I have already mentioned the effect of the sanctions against Italy, the imports from which completely ceased for some months and are still only slowly being resumed. Another reason for the weakening of the import trade may perhaps be sought in the effect of the rural indebtedness measures passed in various provinces: these have, for the moment at any rate produced a contraction of credit and reduced the expenditure of the cultivator especially on ceremonial occasions, and his purchases of dutiable goods. Finally, I am prepared to admit that our estimates may have been pitched too high, and that in our efforts to turn the flank of the accusations of deliberate under-budgetting which have been so plentifully thrown at us we may have advanced somewhat too far.

6. I will now comment briefly on the variations in some of the other heads of Revenue.

(i) *Taxes on Income*.—The deterioration of Rs. 37 lakhs under this head is due in the main to two causes. The first is a decline in income tax receipts from sugar manufacturing companies. The establishment of an unnecessarily large number of sugar factories in certain areas has inevitably led to price-cutting, started primarily by companies which owing to financial or climatic reasons were unable to hold stocks. This has entailed a considerable reduction in the profits of the industry as a whole. The other cause is the fall in the profits of money-lenders. Provincial Rural Indebtedness Acts while improving the position of the debtor have reduced recoveries and made the lender less willing to make further advances so that there has been a falling off both as regards his rate of profit and as regards his volume of business.

(ii) *Currency*.—The variation here is due to a decrease of Rs. 29 lakhs in the Government share of the Reserve Bank's profits owing to the low yield obtainable on the somewhat restricted types of security, in which alone the Bank is allowed by law to invest its assets.

(iii) *Central Excise Duties*.—The rapid attainment of self-sufficiency in sugar is responsible for an increase of Rs. 35 lakhs under sugar excise but this is of course greatly outweighed by the heavy fall in customs duty.

(iv) *Miscellaneous*.—The increase of Rs. 37 lakhs under Miscellaneous includes Rs. 24 lakhs on account of Post Office Cash Certificates issued prior to 1923 and Rs. 10 lakhs of gain on exchange. In future the amounts of any Cash Certificates unclaimed for more than 3 years after maturity will be credited to revenue. Of course if certificates are subsequently presented they will be paid and there will be a corresponding debit to revenue.

Expenditure.

7. I now turn to expenditure where the revised forecast shows a net increase of Rs. 25 lakhs over our original estimates. Owing to heavier discharges of Post Office Cash Certificates Interest Charges are expected to be Rs. 46 lakhs up. For the rest there are a number of savings under Civil Administration and Civil Works which together add up to Rs. 20 lakhs or so. The more important of these are the underspendings on the provision for the Delhi refuse and sewage disposal schemes.

Defence.

8. On Defence I must as usual elaborate somewhat.

The estimate for the year was Rs. 44,85 lakhs ordinary expenditure *plus* Rs. 60 lakhs for Quetta or a total of Rs. 45,45 lakhs. In the ordinary budget the Revised Estimates reveal the following variations :—

There have been underspendings totalling Rs. 65 lakhs in all. Most of those are very small—the only items of note being Rs. 9 lakhs on account of the absence of troops from India and Rs. 12 lakhs owing to the effects of the "War Block" scheme having been more rapid than was expected. On the other hand there have been excesses amounting to Rs. 33 lakhs—the bulk of this being due to increased demands for stores—and a number of minor new and unforeseen expenditures adding up to Rs. 15½ lakhs. Then we have had to provide Rs. 11½ lakhs for the Waziristan operations and in the final analysis underspending has been no more than Rs. 5½ lakhs and this is the amount which we expect to lapse to the Defence Reserve Fund.

During the year in addition to the Rs. 5½ lakhs mentioned above sums of Rs. 33 lakhs representing contributions to military equalisation funds and Rs. 45 lakhs representing postponed liabilities will be deposited in the fund.

As regards expenditure on Quetta about Rs. 50 lakhs will have actually been spent on reconstruction work, etc. and Rs. 10 lakhs will be carried forward to meet further expenditure on this account in 1937-38. This latter figure of Rs. 10 lakhs is included in the sum of Rs. 45 lakhs which I have just mentioned above.

Posts and Telegraphs.

9. To round off my survey of the current year I say a few words about Posts and Telegraphs. The revised forecast provides for a surplus of Rs. 8 lakhs as against a nominal surplus of Rs. 1 lakh anticipated in the original budget. This is the result of savings of Rs. 12 lakhs under working expenses and Rs. 1 lakh under interest charges and a deterioration of Rs. 6 lakhs under receipts. The saving under working expenses is due partly to economies in expenditure and partly because certain claims from other departments did not materialise. The Revised estimate of receipts takes into account a refund of about Rs. 9 lakhs to Provincial Governments on account of their share of unified stamps for the years 1930-31 to 1933-34.

The revenue and expenditure figures are :—

		(Rs. lakhs.)		
		Budget, 1936-37.	Revised, 1936-37.	
Gross receipts		11,74	11,68	
Working expenses		10,93	10,81	
Net receipts		81	87	
Interest charges		80	79	
Surplus	1	8		

Position as at 31st March 1937.

10. So, on the basis of these figures the position is that we are faced with a deficit of Rs. 1,97 lakhs in the current year. This represents a considerable falling off from our hopes of a year ago and it is bound to make us re-examine with some care the foundations on which the Niemeyer proposals for subventions and allocations of revenue to the Provinces rest. However, I propose to leave this examination over until after we have considered the estimates for 1937-38.

FINANCIAL YEAR 1937-38.

11. I am afraid that Hon'ble Members will be rather puzzled when they see the budget statements to be distributed at the end of my speech, for there are considerable changes both in the form and scope of the estimates. These I will explain as briefly as I can and I hope without tedium. First of all there are the changes of form :—

The present system of account heads was introduced in 1921 when a general transformation of the accounts was necessitated by the separation of the revenues and expenditure of the Centre from those of Provincial Governments. Although there have been minor modifications from time to time the general composition has remained the same throughout and there is an obvious convenience in maintaining the present structure with no more than the minimum of change required to adapt it to the new constitution which is being introduced on April the 1st. Apart from the conversion of a few of the present minor heads into major heads the important changes adopted are as follows :—

(i) All-India Excise duties which are levied by the Central Government are, with the exception of the salt duty, at present included under the head "I—Customs". They are of course not customs duties at all and in view of their importance in the Federal Finance scheme separate major heads have been introduced for them both on the receipt and on the expenditure side. The duty on kerosene oil and motor spirit produced in Burma has hitherto been shown as an excise duty. But with the separation of Burma on the 1st of April 1937 the duty on these articles imported from Burma will appear as an import duty under "I—Customs" and only the duty on kerosene and motor spirit produced in India proper will be shown as an excise duty. This will lead to large changes in the figures for import and excise duties on these two items for next year as contrasted with preceding years.

(ii) A new major head "Corporation Tax" has been opened and the designation of the existing major head "Taxes on Income" has been changed to "Taxes on Income other than Corporation Tax".

(iii) The House will remember that in the budget speech last year I remarked that I could not see any sufficient reason for the exhibition of our interest payments under two separate major heads and it has now been decided that all these payments should be classified under the same head "Interest on debt and other obligations".

(iv) Most of the expenditure which, under the existing classification, is shown under the heads "Political", "Frontier Watch and Ward" and "Territorial and Political pensions" together with part of the expenditure at present shown under certain other heads in some of the Area Demands will appear under new heads "Payments to Crown Representative", "Tribal Areas" and "External Affairs".

All sums required on revenue account by His Majesty's Representative for the exercise of the functions of the Crown in its relations with Indian States under Section 145 of the new Government of India Act, *less* any revenue receipts realised by him in the exercise of such functions will be shown under the head "Payments to Crown Representative". The cash contributions referred to in Section 146 of the Act will as hitherto appear as "Payments from Indian States".

(v) A new major head "Grants-in-aid to Provincial Governments" has been introduced to cover the grants given to the Provinces under the Niemeyer Award.

(vi) At present all sterling receipts and expenditure of the Central Government and Provincial Governments are finally brought to account in England and as a result each Government has two sets of accounts, one for sterling and the other for rupee transactions. But in future all sterling transactions, with the exception of a few debt head transactions which are essentially of a sterling nature, will be brought to account finally in India. As a result the separate column in the Budget Statements for English transactions and the separate demands for all the expenditure incurred in England by the Secretary of State and the High Commissioner will not be necessary.

All these changes have been incorporated in the budget statements for 1937-38 and to make comparison easier the figures for 1935-36 and 1936-37 have, as far as possible, been recast correspondingly.

12. But apart from the changes of form there are two major changes of scope which affect the estimates for 1937-38. I refer of course to the Separation of Burma and to the Niemeyer Award including in this term all the other alterations consequent upon the introduction of Provincial Autonomy. The effects of these changes run through practically every head of the Budget and in order to present them as conveniently and clearly as possible to Hon'ble Members I have had a special table drawn up (Table I in the Financial Secretary's memorandum) which will show how much of the variation in each head between 1937-38 and 1936-37 is attributable to the Separation of Burma and to Provincial Autonomy respectively. This Table will make it unnecessary for me to comment on variations in the Heads of Revenue and Expenditure except where they arise from causes other than the two main ones. It will be seen that the general effect of the Separation of Burma is a net reduction of Revenue of Rs. 3,38 lakhs and a net reduction of Expenditure of Rs. 92 lakhs—these figures taking no account of a betterment of Rs. 13 lakhs in the net balance of the P. & T. Department. The net cost of separation is therefore Rs. 2,33 lakhs. At this stage I should explain that on the Revenue side we have taken credit for the receipt, under the Amery Award, of

(i) Rs. 2,29 lakhs in respect of the debt and other liabilities taken over by Burma, and

(ii) Rs. 94 lakhs in respect of Burma's liability for pensions in course of payment on the 31st March 1937.

The former amount is the provisional figure of the annuity payable by Burma for the next 45 years and the latter represents the first of a series of annual payments which will diminish gradually to zero over a period of 20 years. Apart from these the net loss on account of separation would be Rs. 5,56 lakhs. Needless to say all these figures are of a provisional character. There are many uncertain factors to be taken into account particularly under the heads Customs and Taxes on Income and moreover the final material

for the calculation of the annuities payable by Burma will not be available until some time after the 31st March.

As regards Provincial Autonomy, the net results are a reduction of Rs. 51 lakhs in Revenue combined with an increase of Rs. 1,34 lakhs in Expenditure, *i.e.*, a total cost to the Centre of Rs. 1,85 lakhs.

The sum of these two figures, *viz.*, Rs. 4,18 lakhs represents the extra burden on our budget (*i.e.*, additional to that assumed in earlier years) arising from the constitutional changes due on 1st April next. The charges assumed in earlier years including the devolution of 50 per cent. of the Jute Duty and the subventions to the N.W.F.P., Sind and Orissa amount to more than as much again.

13. *Provincial Borrowing.*—This is perhaps a convenient place for me to explain the arrangements which will rule between the Centre and the Provinces as regards payment of existing debts and future borrowings.

As the House is aware a Provincial Loans Fund was established in 1925 in order to systematise the arrangements by which advances were made by the Centre to the Provinces. This was financed out of Central Government monies and all advances sanctioned by the Central Government to Provincial Governments were made from it; the interest charges and the terms of repayment were fixed for all provinces alike at appropriate rates to ensure the solvency of the Fund. It has now been realised that this procedure will be totally inappropriate under the changed conditions more particularly as serious defects in it have manifested themselves even under the present regime.

The Government of India have, therefore, with the sanction of the Secretary of State, reached the following decisions :—

(i) No further loans will be sanctioned to the Provinces from the Provincial Loans Fund with effect from the current year. Essential requirements during this last year of the old regime will be met by loans to be given by the Centre direct for a period not exceeding 18 months and which will before the end of that time have to be converted into regular loans under the new system.

(ii) The Provincial Loans Fund will be wound up.

(iii) All future borrowing by Provinces whether for long or short term, will ordinarily be from the market through the medium of the Reserve Bank. In exceptional circumstances a province may be forced to borrow from the Centre and in such cases the loans will be for specific round amounts on fixed terms while the rate of interest will include an element to compensate the Centre for expenses and risks. The terms of each loan to a province will be settled *ad hoc* in relation—as regards interest rates, maturity and the time of issue—to particular operations of the Centre. The Government of India will not normally, if at all, lend for the purpose of meeting revenue deficits ; and

(iv) existing provincial debts to the Government of India will be consolidated on the terms set out in Appendix III to the Niemeyer Report.

As a result of this consolidation the balances of the Provincial debts to the Government of India as on the 1st April next will, with the exception of the Lloyd Barrage debt, certain loans advanced to the Bombay Government, and Rs. 10 crores of the pre-1921 Punjab debt, be funded into fixed annuities of amounts sufficient to repay the whole liabilities over a period of forty-five

years. The interest element in these annuities will be credited to the Budget head "Interest on Debt and other Obligations" while the capital element will be taken straight to the reduction of debt outside the Budget.

With those possibly somewhat too extensive preliminaries I turn to the estimates for next year, 1937-38.

FINANCIAL YEAR 1937-38.

Revenue.

14. The total figure for revenue, including a contribution of Rs. 15 lakhs from Railways, is Rs. 79,99 lakhs, or Rs. 1,37 lakhs less than the revised Estimate for 1936-37. Hon'ble Members will remember that the constitutional changes are responsible for a reduction of Revenue of Rs. 3,76 lakhs.

15. *Customs.*—The budget estimate for next year is Rs. 44,66 lakhs against the current year's revised of Rs. 46,73 lakhs, in other words, a decrease of Rs. 2,07 lakhs. If, however, we exclude the loss of Rs. 4,26 lakhs due to the separation of Burma, the estimate for next year provides for an improvement over the current year's revised forecast of Rs. 2,19 lakhs, which is distributed over a large number of items.

16. *Taxes on Income.*—The budget estimate for next year is Rs. 14,30 lakhs against the current year's revised of Rs. 15,30 lakhs. After allowing for a loss of Rs. 1,40 lakhs owing to the separation of Burma, the estimate for next year anticipates an improvement of Rs. 40 lakhs, of which Rs. 20 lakhs is due to the measures to be taken under the Income Tax Bill which has already passed this Chamber.

Expenditure.

17. The total figure for expenditure, of course excluding Railways, is Rs. 83,41 lakhs or Rs. 8 lakhs more than the revised estimate for the current year. But as the two constitutional changes I have described in detail are expected to produce an increase of Rs. 42 lakhs there is really a net reduction of Rs. 34 lakhs over the remainder of the field.

This figure of Rs. 34 lakhs we can put down as the resultant of the following decreases and increases:—

Interest payments show a net reduction of about Rs. 87 lakhs, largely due to a considerable diminution in "Bonus on Post Office Cash Certificates". There is also a saving due to the repayment of the 5½ per cent sterling loan but the main benefit of this accrues to the Railways and other borrowers. The separation of Aden will produce a saving of Rs. 20 lakhs a year which of course accrues to the Defence Budget. On the other hand ordinary Defence Expenditure apart from the saving on account of Burma and Aden is up by Rs. 26 lakhs. "Civil Works" are up by Rs. 25 lakhs owing partly to an increased transfer to the Road Fund and partly to provision being made for various Government office schemes such as rebuilding the Customs House in Calcutta and the erection of Central Offices in Bombay. Incidentally I must say that as regards Bombay the rents saved will more than cover interest on the cost of the new building and the maintenance of it. Finally there is an increase in "Civil Administration" partly caused by the necessity for re-voting some of the expenditure on the Delhi refuse scheme.

18. *Defence.*—The Defence Estimates total Rs. 44,82 lakhs. Of this Rs. 43,87 lakhs relates to ordinary expenditure and Rs. 75 lakhs to expenditure on the rebuilding of Quetta.

The figure of ordinary expenditure for 1936-37 is Rs. 45,45 lakhs less Rs. 60 lakhs for Quetta, i.e., Rs. 44,85 lakhs. From this should be deducted Rs. 1,24 lakhs being the reduction allowed for in the 1937-38 estimates on account of the separation of Burma and Aden. The comparable figure for 1936-37 is therefore Rs. 43,61 lakhs or Rs. 26 lakhs less than the estimate of Rs. 43,87 lakhs now presented. Included in this excess is a special provision of Rs. 6 lakhs towards the expenses of sending a Contingent of the Army in India to the Coronation. The real excess is therefore Rs. 20 lakhs. This is much more than accounted for by increases of Rs. 25 lakhs under Ordnance Services, Rs. 14 lakhs under grain prices, Rs. 3 lakhs under transportation due to the withdrawal of a Railway concession, Rs. 7 lakhs under the pay of British soldiers and miscellaneous unavoidable increases totalling about Rs. 11 lakhs. So that taking these into account there has been a reduction over the rest of the field of something like Rs. 40 lakhs. This represents the contribution which the Defence authorities have been asked to make to our, I hope, temporary difficulties in this most difficult of years. But this expedient cannot be repeated very often if at all for, as H. E. the Commander-in-Chief has pointed out to me, the figures have only been reached by the help of a curtailment of services which are bound to be provided for sooner or later—and sooner rather than later. Indeed His Excellency, while he is prepared to face in this year the curtailments involved, has warned me that he is seriously concerned as to the adequacy of the present figures for the real needs of defence.

19. *Posts and Telegraphs.*—It is anticipated that the working of the department in 1937-38 will result in a small surplus of Rs. 4 lakhs after allowing for the separation of Burma and Aden. For purposes of comparison I give below the figures including and excluding Burma and Aden:—

	(Rs. lakhs.)		
	Revised, 1936-37.	Budget, 1937-38 including Burma and Aden.	Budget, 1937-38 excluding Burma and Aden.
Gross receipts . . .	11,68	11,91	11,16
Working expenses . . .	10,81	11,21	10,39
Net receipts . . .	87	70	77
Interest charges . . .	79	79	73
Surplus or deficit . . .	+8	-9	+4

Comparing like with like, the budget estimate of gross receipts provides for an increase of Rs. 14 lakhs over the revised figure for 1936-37, apart from the special refund of Rs. 9 lakhs I mentioned previously. The main items in the increase of Rs. 40 lakhs under working expenses are Rs. 12 lakhs for increments, Rs. 8 lakhs for the Empire Air Mail Scheme and Rs. 5 lakhs for additional postal facilities in rural and urban areas.

The estimates for next year provide for two small changes in rates. The first is a change in the book packet rate. The present rate is $\frac{1}{2}$ anna for the first five tolas and $\frac{1}{2}$ anna for every additional five tolas. As the

House is aware, it has frequently been urged that this rate affects trade adversely and it has been pointed out that it is cheaper to send a book packet from London to Delhi than from Bombay to Delhi. We propose, therefore, to reduce the rate to half an anna for the first $2\frac{1}{2}$ tolas and one quarter of an anna for every additional $2\frac{1}{2}$ tolas. This concession will cost about Rs. 8 lakhs. The second change is the removal of an anomaly in the parcel rates. The present minimum parcel rate is 2 annas for parcels weighing not more than 20 tolas with the result that as soon as a letter weighs more than 3 tolas it is possible, by sending it as a parcel, to pay less than the letter rate. At certain stages the parcel rates become even cheaper than the book packet rates. We therefore propose to eliminate the 2 anna rate for parcels so that all parcels weighing 40 tolas or less will be charged 4 annas. This will yield an additional revenue of about Rs. 8 lakhs which will just balance the loss due to the concession in the book packet rate.

Summary of the position for 1937-38.

20. I am now in a position to summarise the estimates for 1937-38 and the figures are as follows :—

Revenue	79.99 lakhs.
Expenditure	83.41 ,
Gross deficit . . .	<u>3.42 lakhs.</u>

Against this we have Rs. 1,84 lakhs in the Revenue Reserve Fund and so our Net Deficit is Rs. 1,58 lakhs.

But, before dealing with the problem of meeting this shortage, I turn aside for the usual review of our Ways and Means position.

WAYS AND MEANS.

21. *Remittance.*—The ways and means forecast for the current year assumed our sterling requirements to be £41 millions, including about £17 millions for the repayment of the 5½ per cent. Stock 1936-38 and the revised forecast shows practically no change. Between the 1st April 1936 and the 31st January 1937 the Reserve Bank purchased nearly £41 millions of sterling. The Banking Department held at the end of January more than £16 millions of sterling assets while in the Issue Department the ratio of gold and sterling to liabilities was nearly sixty instead of the statutory forty per cent. The position of the Bank is thus a very strong one in spite of this repayment of £17 millions of sterling liabilities. Although the net exports of treasure dropped from Rs. 32 crores to Rs. 14 crores in the first nine months of the year Exchange has remained firm throughout the year mainly on account of the large favourable balance of trade in merchandise which has been accompanied by steadily rising prices of primary products. During the first nine months of the current financial year this favourable balance amounted to Rs. 50 crores against Rs. 19 crores during the corresponding period last year. It certainly does not look therefore as if the rupee were over-valued—in fact there is a good deal more to be said for the contrary view.

The requirements for next year are estimated at £35 millions, inclusive of £6 millions which it is anticipated will be transferred to the Commissioners appointed under the Family Pension Funds Order in Council and £2 millions which will be needed for the repayment of the capital portion of the Railway Annuities and the Railway Sinking Funds.

22. Provincial Requirements.—The revised estimate of the requirements of Provincial Governments amounts to Rs. 6,57 lakhs against the budget estimate of Rs. 5,61 lakhs; the increase is more than accounted for by the withdrawal by certain provinces of the amounts available in their Famine Relief Funds for direct investment. With the introduction of Provincial Autonomy and the separation of the balances of Provincial Governments from the 1st April next the transactions of those Governments will not appear in the accounts of the Central Government. In the first year, however, we shall have to hand over to them in cash a portion of the balances which the Central Government has hitherto held on their account. The cash to be transferred to Provinces on the 1st April is Rs. 2,39 lakhs for minimum bank and treasury balances and Rs. 6,21 lakhs as their free and other earmarked balances. We shall also have to give the Government of Burma Rs. 2,00 lakhs in cash but this amount will be taken into account in the financial settlement with that Government. The total sum included in the estimates for all these items is Rs. 10,60 lakhs.

23. Borrowing programme.—The budget for the current year assumed an increase of Rs. 11 crores in our liability in the shape of Treasury Bills, but made no provision for a rupee loan. Later in the year Government decided to take advantage of the exceptionally favourable conditions in the money market and issued a $2\frac{1}{2}$ per cent. loan 1943-52 for Rs. 12 crores at par. Consequently there will be no increase in Treasury Bills and the balance outstanding at the end of the current year will in fact be slightly less than that at the beginning of the year, namely, Rs. 30 crores. As I have already said a sterling loan of £17 millions was repaid during the year and thus in effect we have been able to repatriate a considerable sterling liability and at the same time lower the cost to the taxpayor by reducing the rate of interest.

No rupee or sterling loans mature next year and on present showing it may not be necessary to issue any new ones. But to repeat what I said a year ago, should conditions again prove favourable Government will not hesitate to take full advantage of them.

The balance of Treasury Bills outstanding at the end of next year is expected to be Rs. 34 crores. That is Rs. 4 crores more than at the beginning of the year and is more than accounted for by the Rs. 5 crores we shall have to pay the Reserve Bank of India for the surplus rupees they will return to us under Section 36 (1) of the Reserve Bank Act.

24. Post Office Savings Bank Deposits and Cash Certificates.—The net receipts from Post Office Savings Bank deposits are now estimated at Rs. 7,50 lakhs in the current year against the original estimate of Rs. 8,25 lakhs and last year's actuals of Rs. 8,95 lakhs. If we make allowance for exceptionally heavy deposits of over Rs. $2\frac{1}{2}$ crores in September 1935 when two Government of India loans were repaid, the estimated receipts during the current year will be more than last year in spite of a reduction in the rate of interest from $2\frac{1}{2}$ per cent. to 2 per cent. with effect from the 1st July 1936. Next year we anticipate a net receipt of Rs. 8,00 lakhs.

As a result of the reduction in the yield on Post Office Cash Certificates from 3 per cent. to $2\frac{1}{2}$ per cent. also with effect from the 1st July last we now anticipate a net discharge of Rs. 75 lakhs in the current year and of Rs. 1,50 lakhs next year.

PROPOSALS FOR 1937-38.

25. As a preliminary to my proposals for dealing with the shortage of Rs. 1,58 lakhs in the accounts of 1937-38 I will deal with the question which I posed at an earlier stage of my speech, *viz.*, have we in the disappointments of the year 1936-37 any reason for doubting the soundness of the conclusions of

the Niemeyer Report in regard to the ability of the Centre to bear the cost of the successive stages by which the new Constitution is being introduced ? A year ago I prophesied that with the help of a Revenue Reserve Fund of Rs. 2 crores we could see our way through 1937-38 and that thereafter the normal growth of revenue would provide step by step for the liabilities which would come upon us from year to year. Our Reserve Fund has turned out to be somewhat less than we expected and Revenue has shown a distinct falling off. Contrary to our hopes therefore we are between Rs. 1½ and Rs. 1¾ crores short of a balance in 1937-38 and unless we assume a growth of revenue during the year greater than we have any right on past experience to expect this should connote a deficit in 1938-39 too of something like the same amount. Are our calculations then all wrong and are we pursuing a chimera in judging that we can finance the new constitution ? I do not think so.

First let us take the disquieting factors.

The restriction of rural credit caused by the Indebtedness Bills is certainly for the time being affecting the purchasing power of the cultivator with the inevitable effects on revenue. It is also diminishing the money-lender's profits. But in the long run these measures are bound to increase rural prosperity and with it the prosperity of the country as a whole and with an increase in prosperity and activity the money-lender will once more be able to employ his idle funds. On the whole then I judge this effect to be a temporary one.

Another bearish feature is the substitution of silver imports for imports of goods subject to a higher rate of duty—a re-appearance in fact of the old hoarding tendency. It would perhaps be optimistic to prophesy any very early disappearance of this though it is to be hoped that it will disappear in time.

Again, the height of the protective and possibly of the revenue duties as well is bringing about the inevitable diminishing returns and these are operating more rapidly than we had believed possible. Nevertheless we had all along assumed that the revenue from protected articles would ultimately decline to much lower levels and the fact that these levels are being reached unexpectedly quickly means again a temporary rather than a permanent embarrassment.

On the other side there are definitely encouraging signs. Railway traffic returns indicate quite clearly a substantial increase in prosperity. The steadily increasing prices of primary products point to the same conclusion. Further, the almost phenomenal increase in exports of merchandise must soon result in an enhancement of purchasing power and altogether we have many pointers towards a greater resiliency of revenue in the not distant future. And finally disappointing as it is, we must be careful not to exaggerate the importance of a gap of one or two crores in a budget of over Rs. 80 crores.

On the whole I do not think that I shall be indulging in unjustifiable optimism if I say, as a result of considering the various factors at work, that there is no reason why the Niemeyer prognostications should not be realised in the long run and that even in the nearer future his programme can be fulfilled with the help of no more than a very modest addition to our resources, which I should estimate to be roughly the Rs. 1½ to Rs. 1¾ crores by which we are short of a balance this year. Of course I am always pre-supposing the absence of internal disorder or external strife. How are we to find this extra amount ?

26. Personally I believe that, given time, we could find it by improving and tightening up the administration of existing taxes. The Amendment in the Income Tax Act brought forward in the current session is expected,

besides arresting the further deterioration which would have attended the continuance of the practice with which it dealt, to yield an immediate improvement of Rs. 20 lakhs in the coming year and credit for this amount has been taken in the estimates I have placed before the House. The other recommendations contained in the Income Tax Enquiry Report are broadly speaking of two kinds. Some are concerned with changes in the Indian income tax system, and involve questions of principle on which it is desirable that public opinion should be elicited before it is decided to put forward legislation to carry them into effect. I have already taken steps to consult representative bodies and interests on these suggestions. The remaining recommendations of the Report are concerned with the administration of the department, and consist of proposals for tightening up the machine so as to secure the most efficient assessment and collection of the tax, accompanied by suggestions for alleviation of certain hardships which are regarded as affording ground for legitimate complaint by the taxpayer. I propose to take up without delay the consideration of the possible improvements in administration with a view to the early introduction of reforms which are agreed to be necessary. Similarly, in the sphere of Customs administration determined action is already being taken to close the loopholes through which smuggling had been found to be taking place, particularly on the frontiers of the French settlements of Pondicherry and Karikal. Again, in the increasingly important field of Central Excises, where arrangements improvised somewhat hastily in recent years still continue in force, we are considering the desirability of introducing improved machinery under direct central control. I have always felt that the efficient administration of the revenue system is of such vital importance as to call for unremitting attention, and I have no doubt that the steps we are taking will in due course yield a substantial return. But they cannot be counted upon to make an immediate contribution sufficient to solve the problem of supplementing the revenues of the coming financial year by the Rs. 1 $\frac{1}{2}$ to Rs. 1 $\frac{3}{4}$ crores which is necessary to balance the expenditure. I must therefore address myself directly to that problem, and I have two proposals to make.

27. (a) In the first place I propose to increase the sugar excise from Rs. 1-5-0 to Rs. 2 a cwt. The main single cause of the present weakness in our revenue position is the virtual disappearance of the revenue from imported sugar. I would remind the House that in 1930-31 this item accounted for no less than Rs. 10 $\frac{1}{2}$ crores. That customs revenue has now practically gone and in its place we are to be left with an excise revenue of under Rs. 2 $\frac{1}{2}$ crores. It is hardly necessary to emphasise the tremendous strain which a loss of 7 or 8 crores in the yield of the consumption tax on a single commodity must impose on the finances of a country. The present level of internal prices is such that the consumer, even when he has fully shouldered the burden of an additional 11 annas a cwt. will be paying no more for his sugar than he was until a very recent date. As regards the manufacturer, I have already mentioned the plight to which over-production has reduced the industry. In so far as the enhanced excise will check this tendency by eliminating the weak and inefficient producer it will have a salutary effect, and by arresting further deterioration will preserve the position pending the fuller enquiry which is shortly to be held by the Tariff Board. For the same reason I believe that the effect on the cultivator will also be beneficial, for it is no advantage to him to be induced to grow cane for supply to a precarious manufacturer who cannot be relied on to take the crop off his hands. I estimate the additional revenue from the increase in the sugar excise at Rs. 1,15 lakhs.

The change in the excise duty involves a change in the customs tariff. The protective duty was imposed, in accordance with the recommendation of

the Tariff Board, in April 1931 at Rs. 7-4-0 a cwt., but in the emergency Budget of September 1931 the surcharge of 25 per cent. was added which brought it to the present level of Rs. 9-1-0 a cwt. When, instead of the revenue surcharge being removed, the excise was introduced in 1934, it was thought desirable to maintain an additional margin of 8 annas a cwt. between the duty on domestic sugar, which was fixed at Rs. 1-5-0 a cwt. and that on imported sugar. This additional margin was based on a subsidiary recommendation of the Tariff Board, which apprehended that in certain circumstances the price of imported sugar might fall below the figure which the Board estimated to be the fair selling price for the Indian product. In present conditions Indian sugar is being sold at prices so far below the price of imported sugar that there is no necessity or justification for maintaining any addition to the substantive protection of Rs. 7-4-0 a cwt. to which the industry is entitled until the 31st March 1938. The import duty will therefore be fixed at Rs. 7-4-0 a cwt. *plus* the excise for the time being in force.

In order to prevent forestalling and minimise the dislocation of the market I have decided that these changes should take effect forthwith, and a declaration under the Provisional Collection of Taxes Act has been attached to the relevant clauses of the Finance Bill. I should also mention that the sugar-producing Indian States are being approached with a view to bringing them into line with British India and securing that the enhanced excise is also levied on their output.

(b) My second proposal for filling up the gap in revenue is to raise the duty on silver from the present level of 2 annas to 3 annas an ounce. I do not think that this modest increase is likely to stimulate a recrudescence of the smuggling which we encountered when the duty was 5 annas or more and I estimate that the additional yield will be Rs. 50 lakhs. This change also will take effect at once.

FINAL SUMMARY.

28. With the additional revenue of Rs. 1,05 lakhs we expect from these measures our net deficit of Rs. 1,58 lakhs for 1937-38 is turned into a small surplus of Rs. 7 lakhs. Incidentally the measures will yield Rs. 5 lakhs or so in the current year and thus reduce the deficit for 1936-37 to Rs. 1,92 lakhs.

Additional taxation always arouses controversy and there is no particular reason why I should expect to escape from the operation of this universal law but the new burdens I am imposing are modest and to the best of my belief no part of them will fall on the shoulders of the poorer classes. The price we have to pay for balancing our budget is not therefore an exacting one. The economic position of the country is undoubtedly improving and in spite of the temporary set back in our budgetary affairs we have certainly no cause for pessimism but rather considerable cause for optimism. And in any case let us not forget that in this very budget we are paying nearly Rs. 2½ crores for the separation of Burma and are providing over Rs. 6½ crores of assistance to the other Provinces.

P. J. GRIGG.

The 27th February 1937.